MCI Telecommunications Corporation
1801 Pennsylvania Avenue N.W
Washington, D.C. 20006

MCI

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August 8, 1995

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

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Re: Revision to Amend Part 32 Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from $500 to $750; CC Docket No. 95-60; RM 8448

Dear Mr. Caton:

Enclosed herewith for filing are the original and nine (9) copies of MCI Telecommunications Corporation's Reply Comments, regarding the above-captioned matter.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Reply Comments, furnished for such purpose and remit same to the bearer.

Sincerely yours,

Don Sussman
Regulatory Analyst

Enclosure
DHS

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List A B C D E

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of:	)	
	)	
Revision to Amend Part 32	)	
Uniform System of Accounts for	)	**CC Docket No. 95-60**
Class A and Class B Telephone	)	**RM-8448**
Companies to Raise the Expense Limit	)	
for Certain Items of Equipment from	)	
$500 to $750	)	DOCKET FILE COPY ORIGINAL

MCI REPLY COMMENTS

MCI Telecommunications Corporation ("MCI"), respectfully submits its Reply to comments filed in the above-referenced proceeding.[1] In its NPRM, the Commission proposed to amend Part 32 of its rules to increase to $750 the limit that governs when certain assets may be expensed rather than capitalized. The Commission proposed to raise the expense limit above the amount indicated by historical inflation,[2] "in recognition of the increasingly competitive environment

[1] In the Matter of Revision to Amend Part 32 Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from $500 to $750, RM 8448, CC Docket No. 95-60, Notice of Proposed Rulemaking, released May 31, 1995 ("NPRM").

[2] The Commission proposed to raise the expense limit to $750 to account for seven years of inflation from the period 1988 to 1995, and proposed and additional adjustment to account for inflation it expects to occur between 1995 and 2000. NPRM at ¶ 9.

and the rapid changes in technology."[3] In comments filed July 24, 1995, MCI did not object to raising the expense limit by fifty percent, to $750, in order to compensate for inflation. MCI did, however, object to increasing the expense limit as a result of an "increasingly competitive environment."[4]

Ameritech, in comments filed July 24, 1995, argues that the expense limit is irrelevant for a company that operates under pure (no sharing) price cap regulation because increases in its "revenue requirement" would not be passed on to customers in the form of higher prices.[5] Therefore, Ameritech recommends that, for carriers operating under pure price cap regulation, the Commission should abolish the regulatory expense limit and simply allow these companies the flexibility to set their own expense limit consistent with industry practice, generally accepted accounting principles, and applicable tax laws.[6]

MCI opposes such broad accounting flexibility for local exchange carriers because, contrary to Ameritech's contention, allowing such flexibility for carriers that have selected "pure" price cap regulation would not necessarily be "revenue neutral." Nothing in the Commission's price cap rules requires a carrier that selects "pure" price caps in a given year to remain under pure price caps in the

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[3] Id.

[4] MCI also argued that the proposed expense increase to $750 should not qualify for exogenous treatment.

[5] Ameritech Comments at 5.

[6] Id. at 6.

following year.[7] Under the current rules, each year a carrier has the flexibility to change between three different productivity factors, all associated with different levels of sharing. Thus, while a carrier like Ameritech may have selected a productivity factor which will result in no sharing or low-end adjustment for 1995, there is nothing to prevent it from selecting a different productivity factor that does have sharing associated with it in 1996. Under such a scenario, if Ameritech were allowed to increase its expenses without limit in 1995, Ameritech would be able to improperly reduce its sharing obligation (or increase its low-end adjustment) for 1996.

Thus, for the above-mentioned reasons, and for the reasons stated in MCI's comments filed July 24, 1995, MCI urges the Commission not to raise the expense limit by more than fifty percent, or above the proposed $750 limit.

Respectfully submitted,
MCI TELECOMMUNICATIONS CORPORATION

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August 8, 1995

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[7] Price Cap Performance Review Order for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order, released April 7, 1995 ("Price Cap Performance Review Order"), Appendix B, Part 61.

STATEMENT OF VERIFICATION

I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on August 8, 1995.

Don Sussman
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CERTIFICATE OF SERVICE

I, Stan Miller, do hereby certify that copies of the foregoing Reply Comments were sent via first class mail, postage paid, to the following on this 8th day of August.

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